

PKF PERSPECTIVES

NEWS FOR OUR PUBLICLY-REGISTERED CLIENTS

The following is a summary of a number of current topics being discussed by regulatory, legislative and other interested parties regarding the audit of public companies. Several of the items below remain unresolved at this date; please stay tuned.

Presentation of Comprehensive Income

On October 12, 2011, the Financial Accounting Standards Board (FASB) announced it is considering deferring certain aspects of **ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income**. This Accounting Standards Update (ASU) was published in June 2011 and requires, among other objectives, **separate presentation on the face of the financial statements of items reclassified from other comprehensive income (OCI) to net income**.

For public companies, the ASU is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. However, the FASB said that stakeholders had raised concerns about whether there was sufficient time to implement the specific provision relative to this separate presentation and, also, about the level of detail. Because of these concerns, the effective date of the presentation requirements for classification adjustments was **deferred** by the FASB.

A proposed ASU on the effective date of the presentation requirements for classification adjustments will be issued in early November 2011 and will have a 15-day comment period.

Possible Revisions to the Auditor's Report

In June 2011, the Public Company Accounting Oversight Board (PCAOB) issued a *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Auditing Financial Statements and Related Amendments to PCAOB Standards*.

This Concept Release calls for changing and expanding what has been the standard auditor's report to make it more meaningful to investors and others. On June 28,

2011 and again on September 30, 2011, the Center for Audit Quality (CAQ) submitted comment letters on the Concept Release. In the near term, the CAQ believes that:

... the addition of clarifying language to the standard auditor's report, a separate auditor attestation report on disclosure in the MD&A and/or an emphasis matter approach would improve the information communicated by auditors to investors while minimizing the unintended consequences associated with other alternatives such as AD&A [Auditor's Discussion and Analysis].

Auditor Oversight: U.S.-China

On October 3, 2011, the PCAOB issued *Staff Audit Practice Alert No. 8: Audit Risks in Certain Emerging Markets*. It focuses on the risks of misstatement due to fraud that auditors may encounter in audits of companies with operations in emerging markets. It also deals with auditor responsibility for addressing those risks and certain other auditor responsibilities under PCAOB auditing standards.

Although not specifically directed to the audits of Chinese companies listed on the U.S. exchanges, the Practice Alert did note that in two months in 2011 more than 24 companies with their principal place of business in China filed Forms 8-K with the Securities and Exchange Commission (SEC). Form 8-K reports auditor resignations, accounting irregularities, or both. According to the PCAOB Chief Auditor, observations by his staff highlight the need for increased awareness of risks when performing audits of companies with operations in these markets.

In July 2011, a delegation from the PCAOB and SEC met in Beijing with senior officials of the Chinese Ministry of Finance (MOF) and China Securities Regulatory Commission (CSRC).

It was thought that a second round of meetings with MOF and CSRC officials in October 2011 in the U.S.

would take place. That meeting never happened, with some speculating that it was in response to the SEC's asking a federal court to enforce a subpoena on one of the Big 4's Shanghai affiliates in connection with the firm's audit of a Chinese company. The cancellation of the U.S. meetings was thought to be a signal of China's displeasure with the SEC's action.

The Chairman of the PCAOB said that the "... PCAOB cannot sit back and wait indefinitely ..." to reach an agreement with China. He said "... we will have to consider using the tools we have at our disposal ... to protect investors."

PCAOB Announces Cooperative Agreements with Japan and Israel

In direct contrast to the situation with China, the PCAOB recently announced that it had entered into cooperative agreements with Japan's Financial Services Agency (FSA) and Certified Public Accountants and Auditing Oversight Board of Japan, as well as with the Israel Securities Authority (ISA).

These agreements will allow the PCAOB to conduct on-site inspections of Japanese and Israeli accounting firms in close cooperation with their respective regulators. The agreements also provide for the exchange of confidential information.

The PCAOB has arrangements in place with foreign regulators in 30 countries which provide for joint inspections of foreign audit firms. More than 900 audit firms currently registered with the PCAOB are located outside the United States, in 85 countries

Annual Investor Survey

On October 13, 2011, the CAQ released its 5th annual "Main Street Investor Survey". The survey found that 70% of investors (*defined as individuals with investments valued at \$10,000 or more*) have at least some confidence in investing in U.S. public companies. This represents a **decline of 5%** from 2010 investors' confidence. There was also a decline in investors' confidence in U.S. capital markets - from 68% in 2010 to 61% this year.

Some other findings:

- ❖ Only 43% of investors have confidence in capital markets outside the U.S. The main reasons cited

for low confidence in non-U.S. markets include sovereign debt problems and worldwide economic troubles.

- ❖ Confidence in audited financial information slightly declined by 1% from 2010 - from 70% to 69%.
- ❖ Topping the list of entities which investors believe look out for investors' interests are: public company auditors, along with financial advisors and brokers, and Audit Committees of publicly-held companies.

PCAOB Release No. 2011-006 on Auditor Independence and Audit Firm Rotation

The PCAOB is soliciting public comment on ways that auditor independence, objectivity and professional skepticism could be enhanced. One possible approach proposed by the Board is mandatory audit firm rotation as discussed in this Release which can be found on their website: www.pcaobus.org.

The Board seeks advice and comment on other approaches as well. Interested parties are encouraged to submit their written comments to the Board. If you would like to comment:

By mail: Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 2006-2803

By e-mail: comments@pcaobus.org

Reference: PCAOB Rulemaking Docket Matter No. 37

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